Results

January – December 2013

Investor Relations
Telefónica, S.A.

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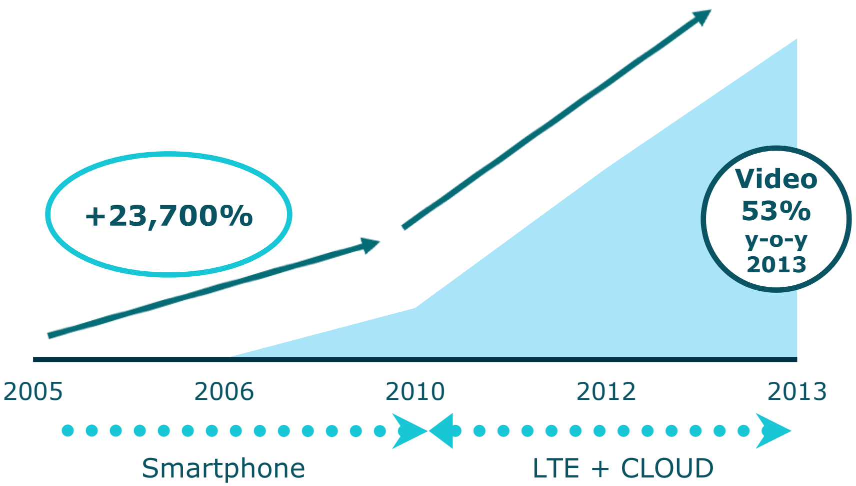
1. **One step further into Digital transformation**
2. **2013 Results**
3. **2014 Outlook**

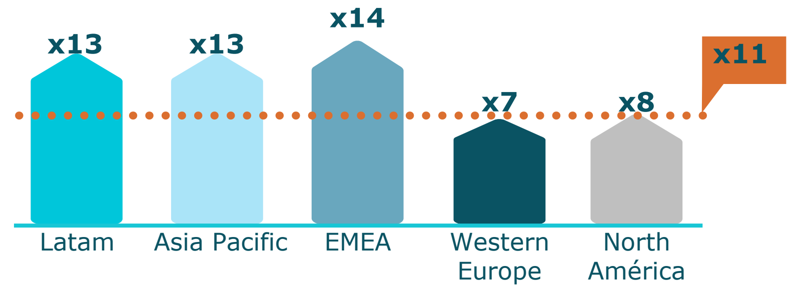
More than ever convinced about the digital opportunity

Mobile Data Traffic



Source: CISCO

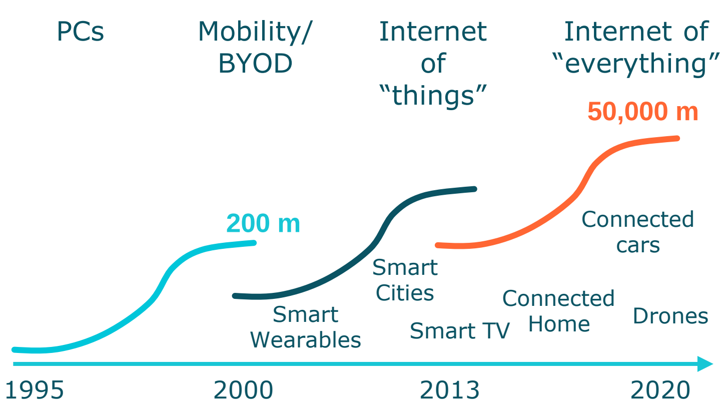
2013-2018E



	2013	2018E
Traffic per customer	440 MB	3.8 GB

Source: CISCO and GSMA Intelligence

Connected objects



Source: CISCO

Broadband Penetration

	2013	2018E
Mobile	38%	91%
Fixed	32%	43%

Source: Pyramid - Global Custom Forecast Q4 13 (Feb-14)

Telcos are in a privileged position to capture the potential from the digital revolution

From → **To**

Traditional Telco → ***Digital Telco***

Leverage unique assets (networks/IT & BI/distribution)

Traditional Telco	Digital Telco
• Copper, 2G/3G • Traditional IT	• Fiber, LTE, Cloud-RAN, virtualisation… • IT as a Digital enabler (infrastructure consolidation, virtualisation, apps transformation…)
• Physical stores and call centers • Traditional Business Intelligence Platforms	• Digital customer experience (seamless multichannel experience, online at the next step…) • Customer insight (advanced business analytics, Big Data, Real Time capabilities…)

+

Capturing growth beyond connectivity

Traditional Telco	Digital Telco
• Communication services	• Digital solutions, exploiting in-house development & partnerships with third parties

Taking now the next step in our digital transformation journey

OUR CORE BELIEFS REMAIN UNCHANGED:

- Capture digital growth opportunities
- Increase our relevance in our clients' digital lifes

First telco to focus on the digital opportunity

1 **CREATION OF TEF DIGITAL & TGR:**

- TD: focused on digital opportunity
- TGR: leverage scale to drive efficiency
- Reinforce position in the digital world

Accelerate operating transformation, deleveraging & championing in-market consolidation

2 **OPERATIONAL IMPROVEMENT, FINANCIAL FLEXIBILITY, MARKET CONSOLIDATION:**

- Extensive simplification programs in C. Republic & Spain (tariffs, P&S portfolio, VAS platforms…)
- New propositions ("Refresh", "Multivivo", "Datos compartidos"…)
- IT transformation (applications transformation and simplification…)
- Network sharing agreements in several countries
- Balance sheet deleverage (€-16bn in 18m)
- Portfolio management focusing in core markets (C. Republic, Ireland, Germany)
- Increased proximity of T.Digital with business lines

Reinventing the telco

3 **DIGITAL MONETISATION & BEST-IN-CLASS EFFICIENCY:**

- Client driven organisation
- Cross-country structural cost base simplification and CapEx transformation
- Digital fully integrated with the core
- Focus on simplification and execution

Sep-11 | **Jul-12** | **Feb-14** | **Dec-16**

Today

To fully capture the digital opportunity & maximise value creation we are evolving our operating model…

+ Revenues

- **Absolute focus on data traffic monetisation and digital services**
  - A quantum leap in customer insights
  - Sophistication and industrialisation of commercial functions
  - More integration between digital and "core" services

+ Technology

- **Best in class full IP Network & IT**
  - Speed up of fiber & LTE deployments
  - Accelerate bold IT transformation
  - Global platforms as an enabler of speed-to-market

+ Efficiency & Execution

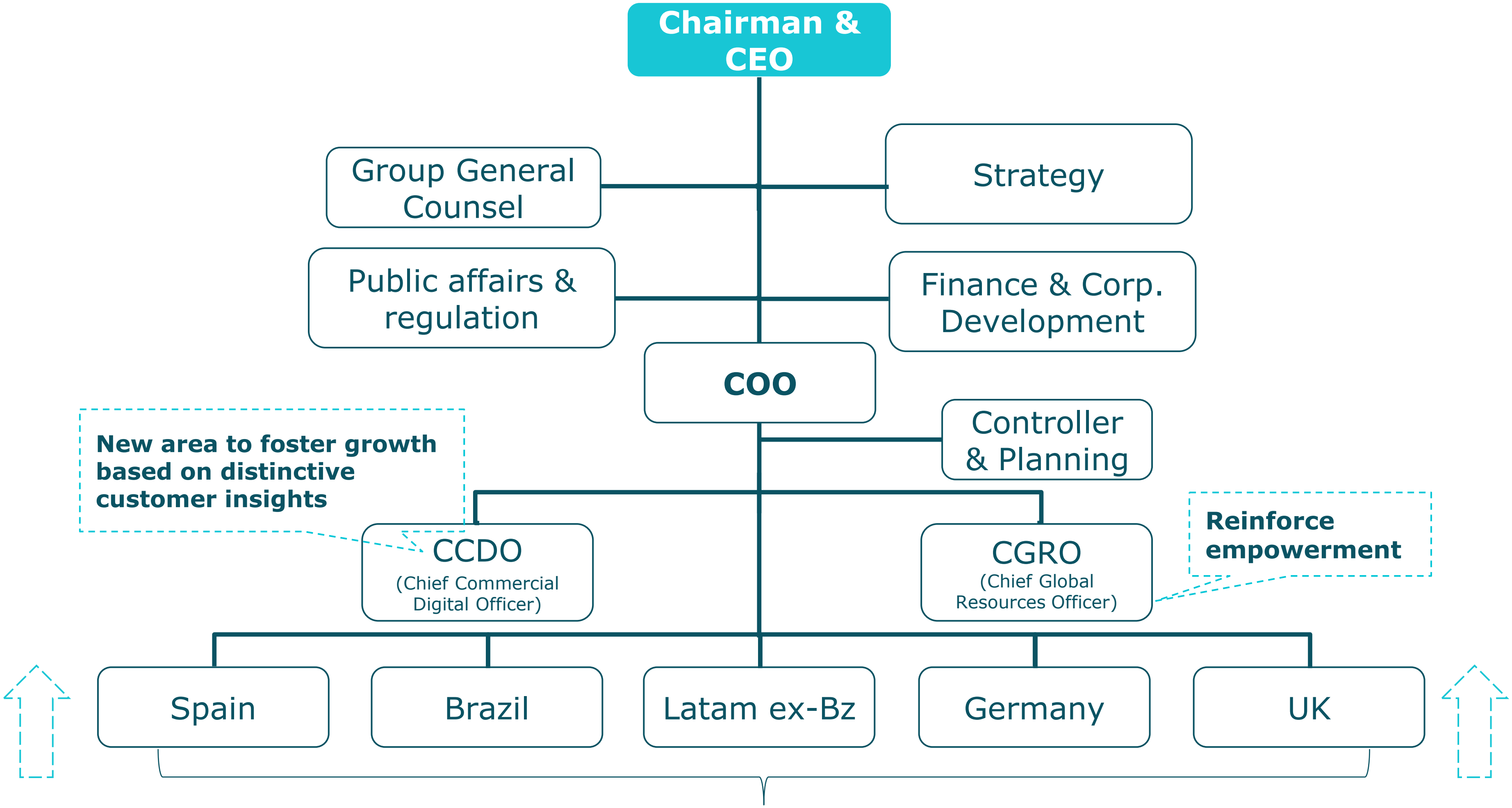
- **Maximum local and global scale leverage**
  - +€1.5bn annual savings long run
- **Minimum distance between strategic and operational decisions**
- **Maintaining financial discipline**

+ Sector Leadership

- **Establishment of a level playing field**
- **New Public Positioning, expanding the role of telcos in the value chain**
  - Supporter of the ICT sector and customer needs (privacy, security, open & transparency)
  - Defender of investment model
  - Key driver of industry-wide collaboration

Accelerating sustainable growth & shareholder value creation

…leading to a digital customer centric & leaner organisation



Closing distances between strategic and operational decisions & increased visibility of key businesses

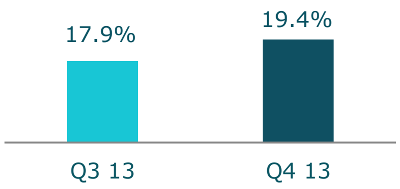
T. Digital: Towards a differential commercial proposition

Pioneers as a Telco Company moving forward to the Digital world

Developing platforms: differential capabilities

- **OTT services** for fiber customers in Brazil and Spain
- **Smart M2M Solution**; largest smart meter contract win to date in the UK
- **Instant Servers**: first global cloud service with TEF's brand
- **TuGO**: changing the way people use their phone service
- **Latch:** security service to switch digital services on and off

Revenue growth(1) (organic y-o-y)



Digital at the core of our business

Finding opportunities alongside the innovation chain

- **Axismed & Saluspot** (eHealth)
- **Raphsody** (Music Service)
- **Box** (Cloud)
- **Tokbox** (Video)

Partnering with category leaders to provide E2E solutions

- **Mozilla** (Firefox OS)
- **Microsoft** (Global Video Platform)
- **Mastercard, VISA, Santander, Caixabank, Wirecard, Monetise** (Financial Services)
- **Pinterest, Evernote, Spotify** (Apps)
- **Capita** (eHealth)

Enabling Telefónica to move one step ahead

(1) It includes subsidiaries and other businesses of T. Digital and digital services already comprised in T. Latinoamérica and T. Europe

The Chief Commercial Digital Officer is key to ensure data monetisation

Main responsible for revenue growth in the Group (B2B & B2C)

One single Data Monetisation strategy

One single Market Intelligence platform

Responsibility over products & channels

"Take a giant leap in customer insight"

Know the customer

- Owner of all customer data in the Group (Big Data)
- Ensures excellence in understanding customers' needs
- Develop BI platforms

"Offer the most valued proposition"

Design the value proposition

- Develop P&S framework and road maps
- Develop global products:
  - Digital scope (former T.Digital verticals)
  - Core products with high digital overlap
- Develop alliances with content and OTT players (video, music, apps…)
- Defines "equipment" & Customer Experience

"Ensure the best commercial experience"

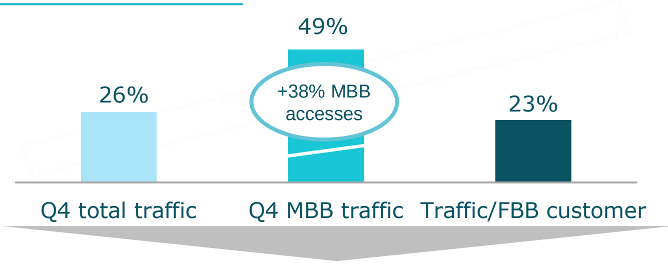
Optimise the go-to-market

- Defines channel strategy, operating model and mix
- Leads global efforts (e.g. multichannel)
- Global responsible for brand

T. Global Resources: Capturing value from scale and empowering the Digital Telco

Network Development

Data evolution (y-o-y)



- Transformation towards **top quality & future-proof networks** to meet customer demand
  - 68% of total organic CapEx dedicated to growth & transformation
  - 4G launched in major markets

- **Accelerated CapEx in hyper-connected networks and UBB**

Sites with UBB backhaul(1): **~60%**

FTTH homes passed (m): **~5.0**

- Successful trial of **CPE virtualisation in Brazil**
- **Network sharing agreements** adapted to each market:
  - UK, Germany, Spain, Brazil, Mexico, Colombia…

(1) Fiber and Radio IP backhaul over total sites.

Global IT

- **Consolidation of IT commodity infrastructure**
- Set up of the **world-class data center** in Madrid

Data Centers closed	Fewer physical servers	Servers virtualised to 34%
6	**-12%** y-o-y	**+7 p.p.** y-o-y

- **Application decommission & transformation**:
  - Optimising of time-to-market and simplifying integrations

IT Applications turned-off **1,150**

Global procurement & devices

- Driver of long term sustainable value
- **E2E Strategic Sourcing** introduced: E2E seamless definition and execution for key global purchasing categories

~7% Savings

- **Devices**:
  - Agreements with relevant players allowed to rebalance O/S and vendor map, driving smartphone penetration

2014 building infrastructure based-long term advantages

Developing High Speed Networks (LTE & FTTH)

2014 CapEx in growth & transformation: 75% of organic CapEx
+7 p.p. y-o-y

FTTH CapEx	LTE CapEx	3G CapEX	Transport CapEx	TV CapEx
+65% y-o-y	+27% y-o-y	+27% y-o-y	+35% y-o-y	+84% y-o-y

2014 FTTH
ARPU

FTTH

~x2 vs 2013

2012 2013 2014

~40% PoP(1)

~25% PoP(2)

~10m

FTTH homes passed by Dec-14 **(m)**

Fiber Churn vs ADSL

50%

External plant faults vs. copper

~50%

2014 LTE
ARPU

Sites with LTE service

>9,000 >20,000

~x2 vs 2013

2012 2013 2014

Major advance in EU 4G Coverage

15% PoP

~50% PoP

50%

50%

>60%

2012 2014

4G launches

Sites with UBB backhaul(3)

>65%

2014 IT simplification
Efficiency

Infrastructure consolidation

Fewer physical servers	Servers Virtualised	Data Centers
-10%	+9 p.p.	-11

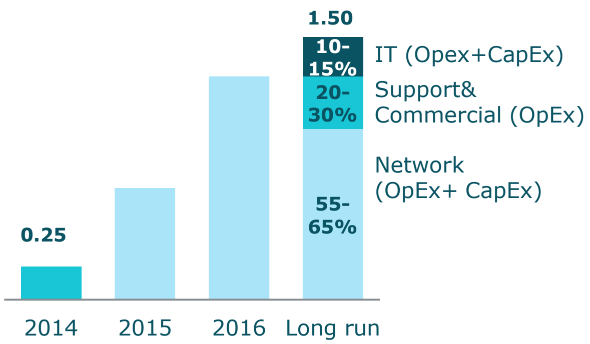
Apps transformation

Applications
~-300

(1) Coverage calculated as total homes passed over total national homes (Sources EPA)
(2) In Sao Paulo urban areas with electricity
(3) Fiber and Radio IP Backhaul

Opportunity to generate significant synergies trough a new operating model

Savings from new operating model (€ Bn)



€1.5Bn gross OpEx+CapEx savings
ex-Venezuela & additional to German synergies

Network

- **Run a more integrated network factory: generating efficiencies and delivering top quality**
  - **"One design":** adoption of global standards and designs for key network elements. Higher procurement savings through more aggregation of demand
  - **Global OSS & processes**: acceleration of current programs
  - **CapEx:** cross-country allocation and global management

IT

- **Implement shared services and global management initiatives to reduce cost and support digital business transformation**
  - **Infrastructure:** production concentrated in fewer world class regional Datacenters, standardisation of operations and increase of virtualisation levels (a truly cloud driven infrastructure)
  - **Applications:** sharp reduction of local applications and decommission legacy, maximise re-use and adoption of market standards. Operate applications regionally

Support (F&A, HR, other) and Commercial

- **Adopt global processes and concentrate operations in regional centers to achieve higher efficiencies and improve execution**
  - **Simplification** and **globalisation** of support E2E processes
  - **Accelerate consolidation** of transactional back office activities into regional shared service centers
- **Streamline commercial costs by becoming more digital**
  - **Optimise channel mix,** adjusting footprint whilst developing best on-line platform
  - **Sustainable hardware models**

2013 Highlights

1. Back to organic growth

- **Third consecutive quarter of organic revenue increase** (+1.8% y-o-y; +0.7% in FY)
  - Highly diversified portfolio; double digit growth of T. Latam and digital services in Q4 (y-o-y organic)
  - Higher value & more sustainable access base

2. Stabilisation of business trends

- **OIBDA back to growth in Q4** (+1.2% y-o-y organic; flat in FY)
- **Virtually stable OIBDA margin** y-o-y (-0.2 p.p. organic in Q4 and FY) to 33.4% in FY
- **Initiatives to bolster future growth** (reinvesting efficiencies&investments) lead to a -2.7% y-o-y organic OpCF

3. Maintaining high FCF generation in spite of FX headwinds

- **Solid FCF generation** (€5.4Bn in 2013; €6.9Bn ex-spectrum payments)
- FCFS/EPS comfortably exceeding DPS

4. Enhancing financial flexibility

- **Continued debt reduction: €45Bn at year-end** (ND/OIBDA: 2.36x)
  - **Net financial debt reduced by €9Bn in 2013** to €42Bn including post-closing events (ND/OIBDA 2.31x)
  - €16Bn net debt reduction since Jun-12 (including post-closing events); improving solvency & liquidity

5. Active portfolio rationalisation freeing resources from non-core activities to increase ROCE in core markets

6. Delivering on 2013 guidance

Financial summary

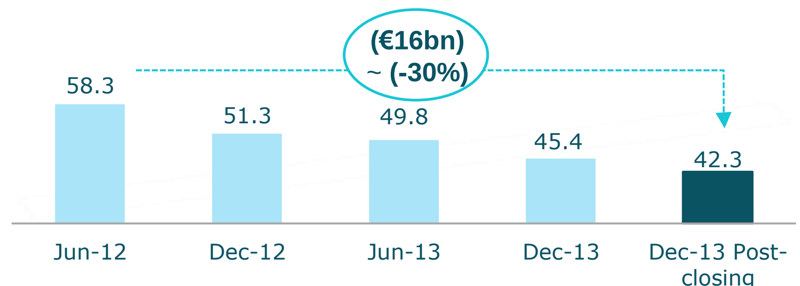
€ in millions	FY 13 Reported	FY 13 Reported y-o-y	FY 13 Organic y-o-y	Q4 13 Reported	Q4 13 Reported y-o-y	Q4 13 Organic y-o-y
Revenues	57,061	(8.5%)	0.7%	14,436	(8.9%)	1.8%
OIBDA	19,077	(10.1%)	0.0%	4,977	(8.7%)	1.2%
OIBDA Margin	33.4%	(0.6 p.p.)	(0.2 p.p.)	34.5%	0.1 p.p.	(0.2 p.p.)
OpCF (ex-spectrum)	10,905	(11.8%)	(2.7%)	1,828	(18.4%)	(12.0%)
Net Income	4,593	16.9%	--	1,448	206.3%	--
EPS	1.01	15.6%	--	0.31	196.2%	--

Reported figures impacted by:

- Significant impact of FX on y-o-y variations:
  - -7.5 p.p. in FY revenues (-9.2 p.p. in Q4)
  - -7.5 p.p. in FY OIBDA (-9.4 p.p. in Q4)
- Changes in the perimeter (Atento) effect on y-o-y change:
  - -1.7 p.p. in FY revenues (-1.3 p.p. in Q4)
  - -1.0 p.p. in FY OIBDA (-0.7 p.p. in Q4)

- ***~ 2/3rds of FX impact in OIBDA offset at FCF level*** *through lower CapEx, Interest, Tax & Minorities payments*
- ***Strong track record of debt reduction despite FX***

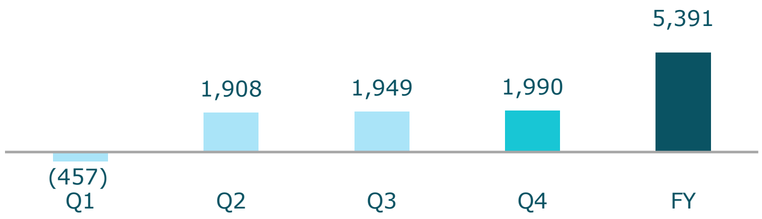
Net Financial Debt (€ in billions)



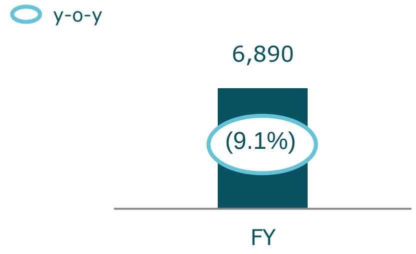
ND/OIBDA: 2.65x 2.31x

Maintaining strong cash flow generation

FCF 2013 (€ in millions)



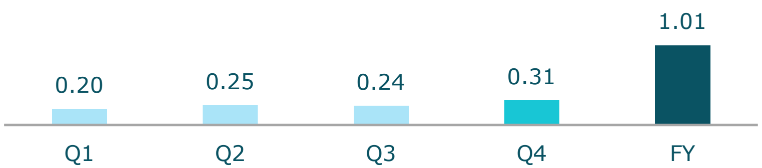
2013 FCF (ex spectrum)



FCFS/EPS comfortably exceeding DPS

FCFS 2013 (€/share)

EPS 2013 (€/share)



DPS 13
€0.75

63% FCF payout

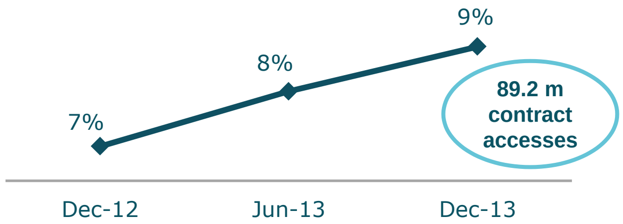
Delivering on 2013 guidance

Guidance 2013	2013
Revenue growth	+0.7%
Lower OIBDA margin decline than in 2012 (-1.4 p.p.)	-0.2 p.p.
Similar CapEx/Sales as in 2012 (14.1%)	14.5%
Net Financial Debt < €47bn	€45.4bn

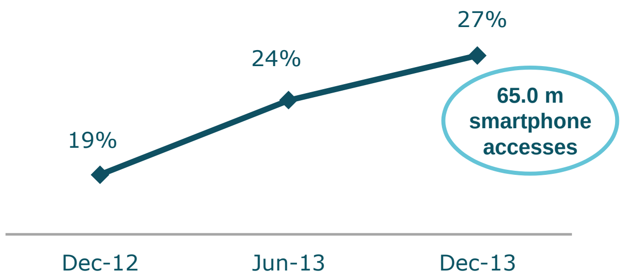
14.0% excluding Venezuela CapEx increase

Investing in quality, setting stage for future growth

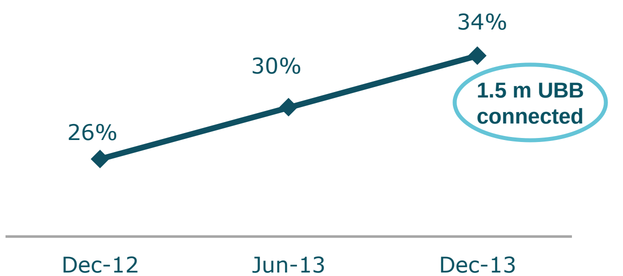
Mobile contract accesses (y-o-y)



Smartphone penetration (y-o-y)



Fixed UBB coverage (fiber+VDSL/ Fixed Accesses)(1)



Capturing high value customers

- Q4 mobile net adds: **83% contract**
- **Contract segment** is already **35%** of mobile base (+2 p.p y-o-y)

Continued smartphone momentum

- **Smartphone net adds 1.3x** vs. 2012
- **Monetising the data opportunity**

Fostering UBB uptake

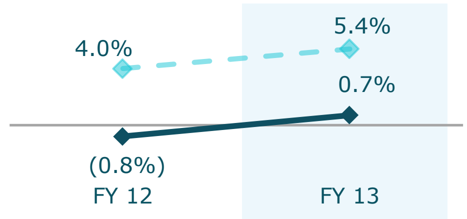
- **Accelerating differentiation** (Fiber, LTE)
- **FBB**(1) **accesses up 2%** y-o-y: high single digit growth in Latam

1. FBB and fixed accesses excluding the impact of the sale of the fixed business assets in the UK

Improved trends in 2013 across all items

Revenue (organic y-o-y)

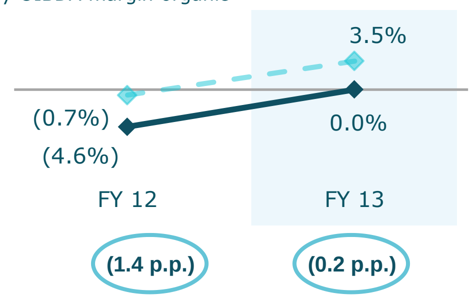
■ TEF Group ■ TEF Group excl. Spain



OIBDA (organic y-o-y)

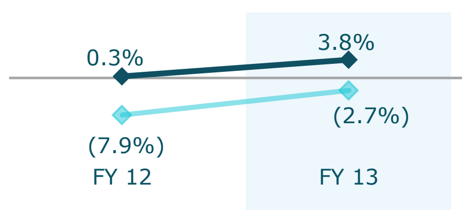
■ TEF Group ■ TEF Group excl. Spain

y-o-y OIBDA margin organic



CapEx (organic y-o-y)

■ OpCF ex-spectrum



Progressive improvement in Spain already accelerating Group growth

Capitalising diversification and business transformation

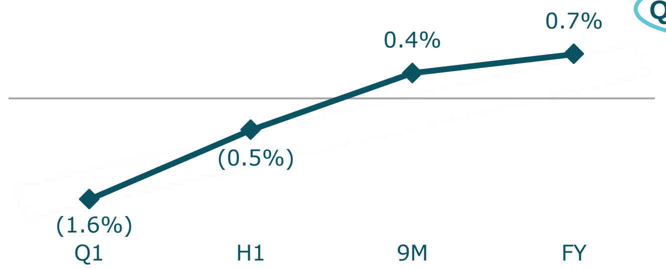
- **Enhanced revenue mix** to a more data centric Company
- **OIBDA stabilisation on sequential margin improvement**
- **Strict cost discipline, savings from efficiencies and simplified operating model**

Increased investments to grow

- **Developing UBB** to offer better quality and experience
- Improved OpCF profile
- Maintained **good OpCF margin** of 19.1% in FY

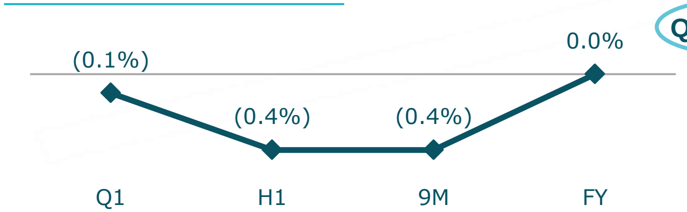
Revenue accelerating; profitability stabilising

2013 Revenues (organic y-o-y)



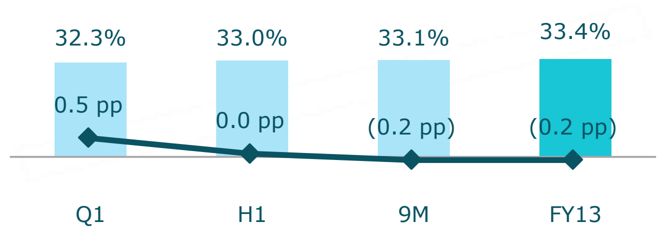
Q4: +1.8%

2013 OIBDA (organic y-o-y)



Q4: +1.2%

2013 OIBDA margin (organic y-o-y)



Accesses growth translating to sales increase

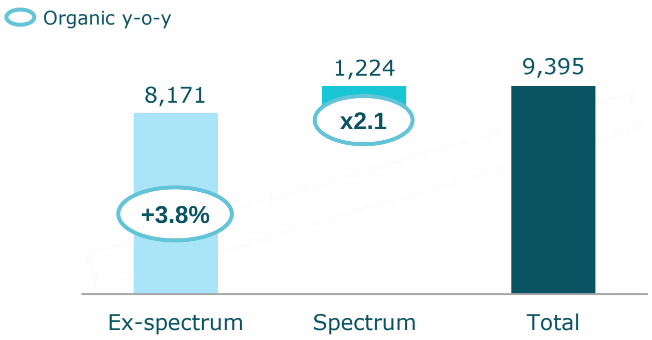
- **T.Latam** (51% of total) **growing at 10.3**% organic y-o-y in Q4
- **T.Digital ramping-up** (Q4:+19.4% organic y-o-y)
- **Enlarged contribution of data** (37% of MSR; +3 p.p. y-o-y)
- **Continued strength in non-SMS** (Q4: +22.4% organic y-o-y)
- **2013** organic **top line +2.3%** (y-o-y **ex-regulation**)

Revenues, cost discipline and efficiency flowing into OIBDA

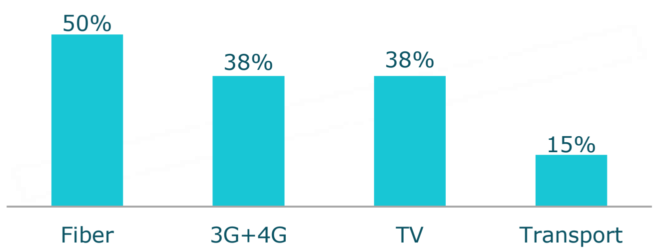
- **Improving OIBDA** y-o-y organic trend **to flattish at YE**
- **T. Latam OIBDA accelerating** to 6.1% organic y-o-y in Q4
- **T. Europe margin**: 37.8% in Q4 (+0.6 p.p. organic y-o-y)
- **Significant decline in commercial expenses** (-6.1% y-o-y in FY; +2.0 p.p vs. 9M on focused commercial activity)
- **Higher coverage, capacity and speed in UBB lead to increased network costs** (FY: +6.3% y-o-y; +0.4 p.p. vs. 9M)

Focused CapEx to promote growth opportunities

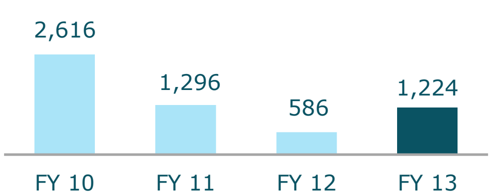
Capex ex spectrum (€ in millions)



CapEx oriented to growth (organic y-o-y)



Spectrum (€ millions)



Targeted investments

- **Improved spectrum position**
- **4G spectrum secured in core markets**
  - Enabling fast and efficient LTE expansion
- Solid **execution of investment efficiencies**

Strict capital allocation

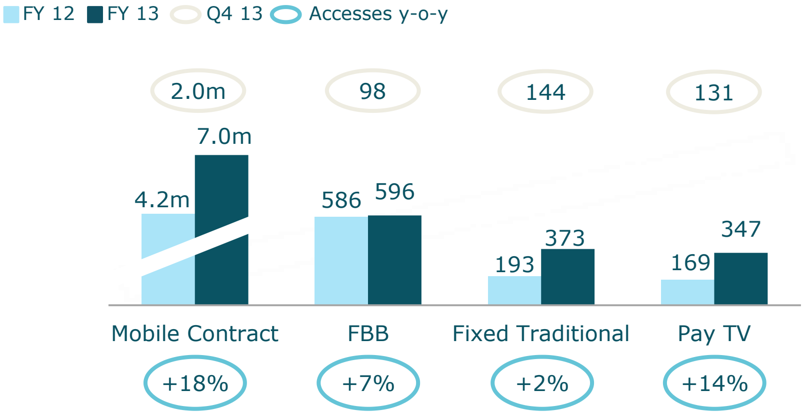
- **Devote CapEx to the right priorities**
- **Building differentiation**, improving customers experience
- **Ongoing transformation** of our **networks**

Superior spectrum holdings already built

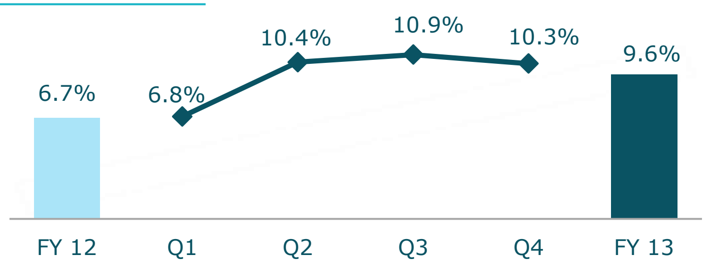
- **2010: Germany** (€1.4bn; 800 MHz; 2.0 MHZ & 2.6 MHz); **Mexico** (€1,2 bn; 800 MHz; 1,700 MHz & 1,900 MHz)
- **2011: Spain** (€ 0.8bn; 800 MHz & 900 MHz; 2.6 MHz); **Brazil** (€0.3 bn; 3G licenses).
- **2012: Brazil** (€0.4bn; 4G licenses)
- **2013**: **UK** (€0.7bn; 800 MHz); **Spain** (€0.1bn; Extension 900 MHz); **Brazil** (€0.2bn; LTE); **Peru** (€ 0.1bn; AWS); **Colombia** (€0.1 bn; AWS).

T. Latam: Outstanding commercial activity boosting growth

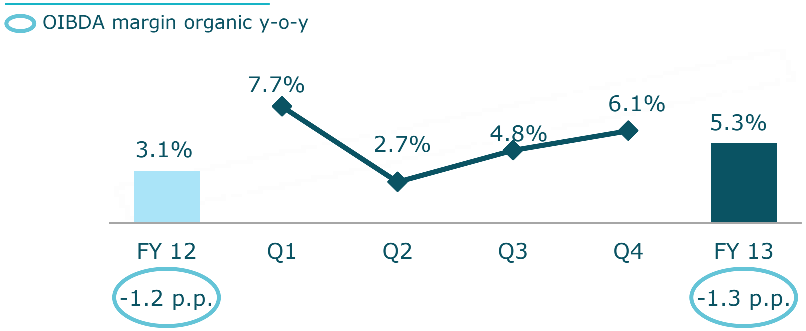
Net Adds (‘000)



Revenues (organic y-o-y)



OIBDA (organic y-o-y)



Leading sector transformation

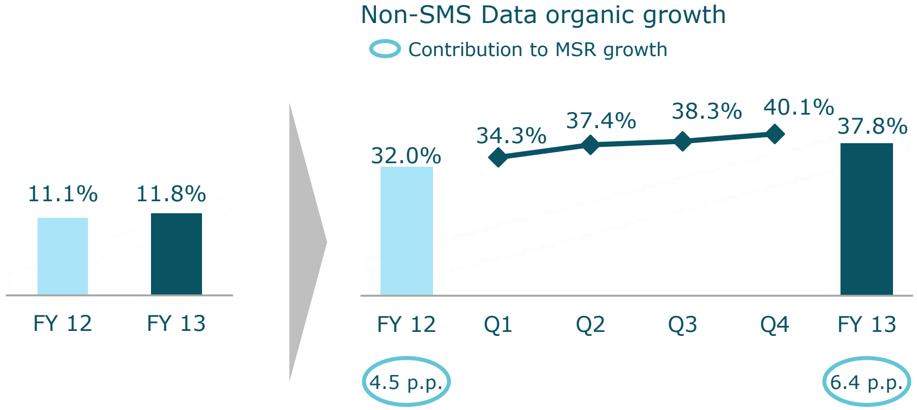
- **Best quality customer base**: Upgrading to contract & smartphone
  - **Mobile contract**: 46.4m. Penetration: 25% (+3 p.p. y-o-y)
  - **Smartphones:** 38.1m. Penetration: 22% (+9 p.p. y-o-y)
- **Leveraging on integrated infrastructure:**
  - **Increased** contribution of **3P bundles** (net adds 2x FY 13/12)
  - **Reduced churn**: FBB & mobile contract (-0.2 p.p. y-o-y)

Revenue and OIBDA growth acceleration

- **Revenue** performance **gradually fuelling into OIBDA**
- **Peru, Colombia, Mexico, Central America and Argentina accelerating** revenue y-o-y sequential organic growth in Q4

T. Latam: Revenue growth drivers ramping-up

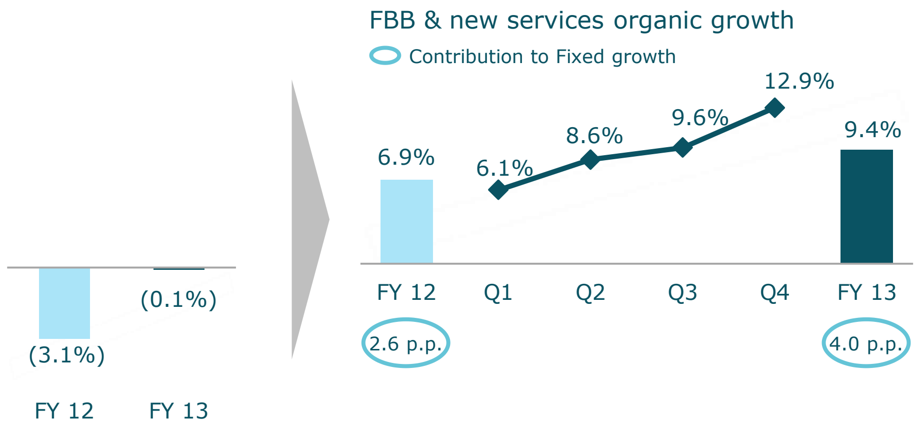
Mobile Service Revenues (organic y-o-y)



Steady MSR increase improvement on booming data

- **Increased contribution of mobile data** on successful strategy oriented to customer value
  - Data revenues accounts for 32% of MSR (+2 p.p. vs. FY 12)
  - Non-SMS already 68% of data revenues (+11 p.p. vs. FY 12)

Fixed Revenues (organic y-o-y)

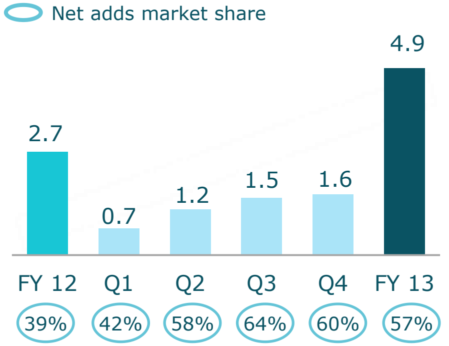


Stable fixed revenues in 2013

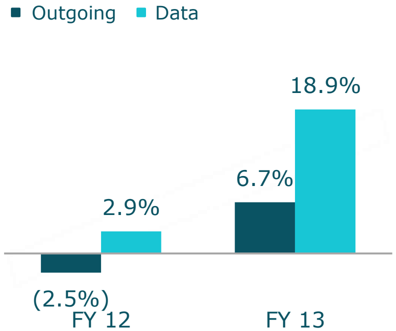
- **Sound improvement in Q4 fixed business** (+3.0% organic y-o-y)
  - Commercial turnaround starting to deliver results
  - Acceleration of FBB and other new service revenues: 49% of fixed revenues (+4 p.p. y-o-y)
  - All countries contributing to sequential acceleration y-o-y organic growth in Q4

Brazil: Strengthened market position

Contract Mobile Net Adds (million)



ARPU (y-o-y)

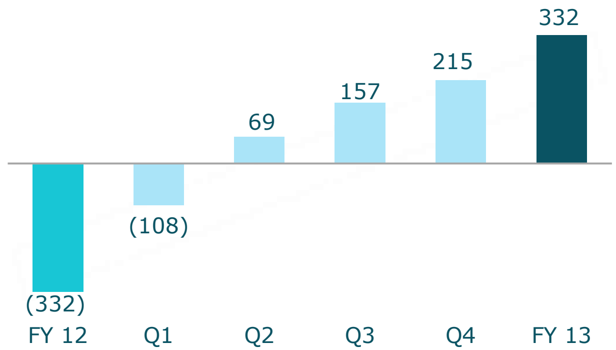


Leadership in high value customers

- **Record contract net adds** for third quarter in a row: accesses +26% y-o-y; smartphone penetration: 24% (+11 p.p. y-o-y)
- **Superior competitive positioning**:
  - Best-in-class network:
    - 3.1k municipalities covered with 3G (x2 vs closest competitor)
    - 73 cities covered with 4G
  - CSI leadership in both fixed and mobile businesses

Fixed Services Net Adds ('000)

(Fixed telephony, TV and FBB)

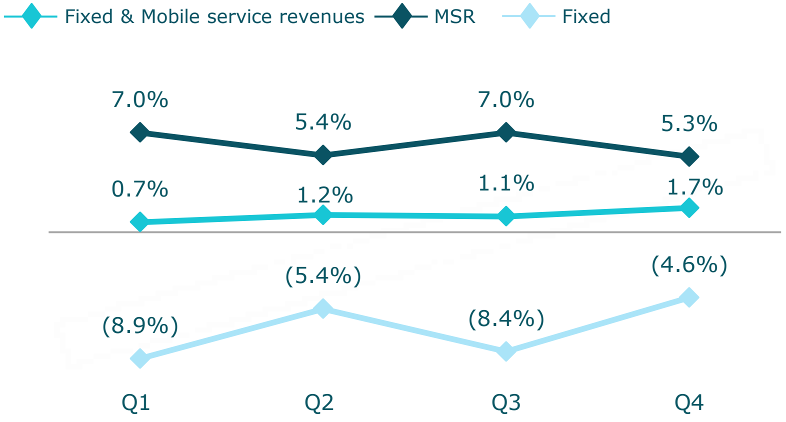


Steady execution of fixed turnaround strategy

- **Fibre coverage reaching 1.4m households** (15% take-up to 204 k connected). Target: 2.5 m households by 2014 YE
- **Expanding coverage through Fixed Wireless technology** (165 k net adds in Q4; 341 k in FY to 484 k customers)
- All **fixed services** posting **positive net adds** in Q4 and FY
  - Positive net adds for second quarter in a row in Pay TV on adoption of IPTV and DTH

Brazil: Solid revenue and OIBDA performance

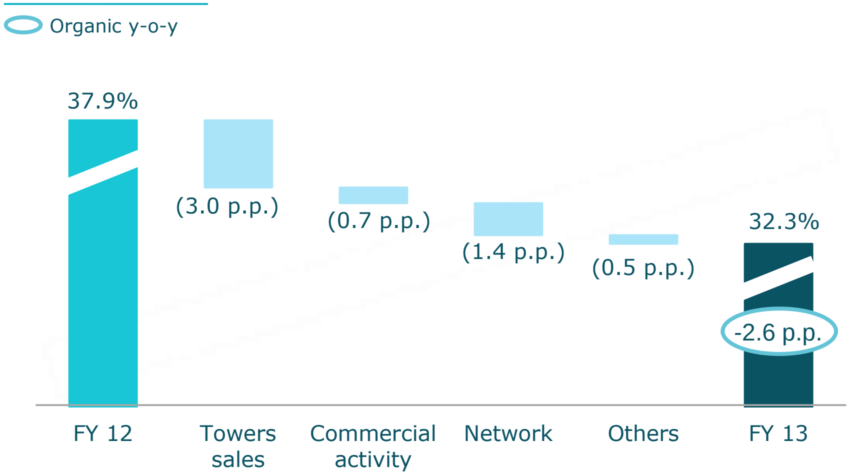
2013 Revenue (organic y-o-y)



Consistent revenue growth

- **Outgoing mobile revenue growing** by 9.7% y-o-y in Q4 and 9.3% in FY on strong data growth (+20.9% y-o-y in FY)
- **Enhanced fixed revenue trend** on FBB and new services (+3.8% y-o-y in Q4)
- Revenue y-o-y growth slightly decelerates in Q4 to 1.3% (+1.5% in Q3) on lower handset sales contribution
- Regulation dragging y-o-y growth by 1.5 p.p. in Q4 and FY

OIBDA Margin



OIBDA margin erosion in 2013 to further capture growth

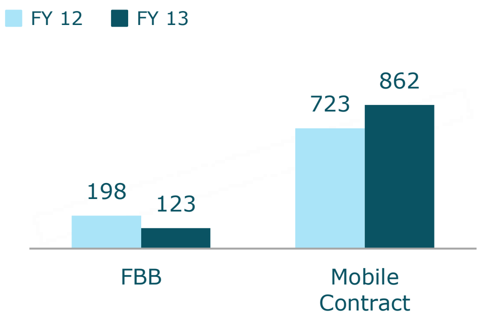
- **Sequential margin improvement** (35.7% in Q4 vs 28.9% in Q3) on lower commercial costs, non-recurrent effects (+€33m) and efficiency gains
- **Strong commercial efforts** dragging OIBDA margin
- **Higher network costs** to tackle booming data and maintain coverage and quality leadership
- Synergies flowing (personnel, taxes,…); **strong FCF generation**

T. Latam: Strengthened market positioning (I/II)

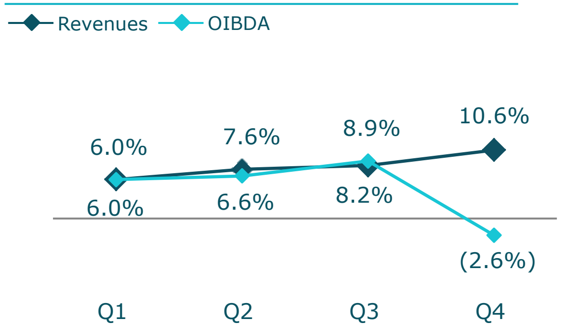
% out of Group revenues

Peru 4.3%

Net Adds ('000)



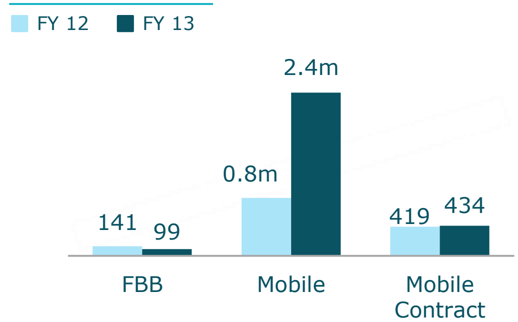
2013 Revenues & OIBDA (organic y-o-y)



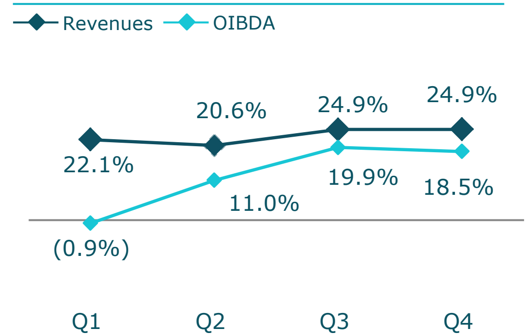
- **Revenue y-o-y growth acceleration in Q4**: mobile (+14.5%); fixed (+9.4%)
- **OIBDA** y-o-y decline in Q4 impacted by commercial activity and tougher comps
  - First player launching 4G services (Nov-13)

Argentina 6.5%

Net Adds ('000)



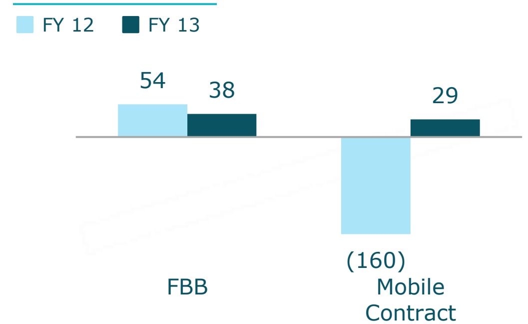
2013 Revenues & OIBDA (organic y-o-y)



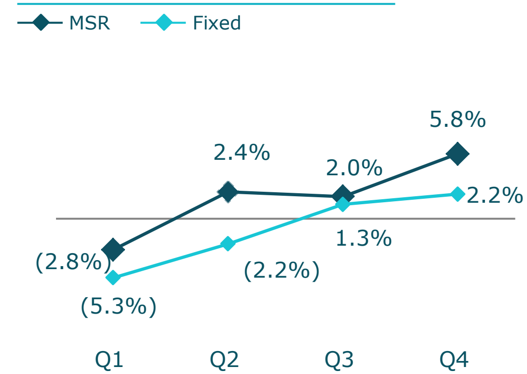
- **Best ever mobile net adds** in 2013
- Successful launch of "Quam" as secondary brand in Q4
- **OIBDA margin decline gradually easing** (-1.3 p.p. in Q4; -2.5 p.p. in FY)

Chile 4.4%

Net Adds ('000)



2013 Revenues (organic y-o-y)



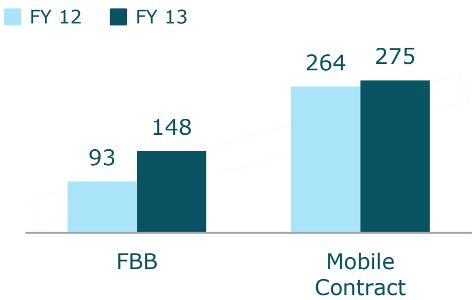
- **Stable OIBDA margin y-o-y in FY** despite more intense commercial activity
  - 4G services launched in Nov-13

T. Latam: Strengthened market positioning (II/II)

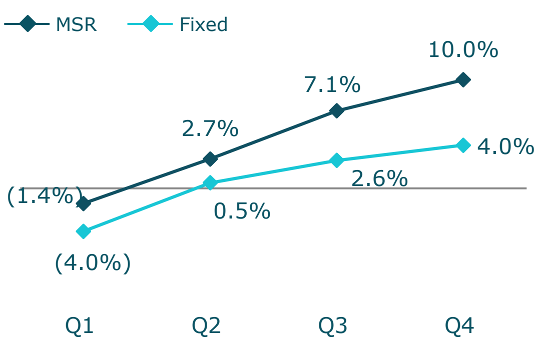
% out of Group revenues

Colombia
3.0%

Net Adds ('000)



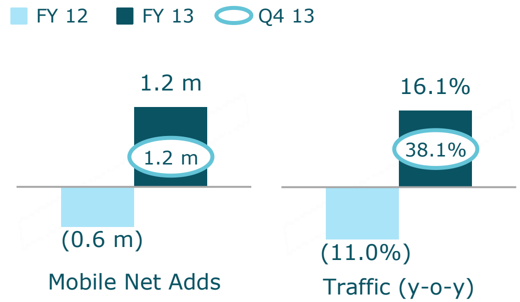
2013 Revenues (organic y-o-y)



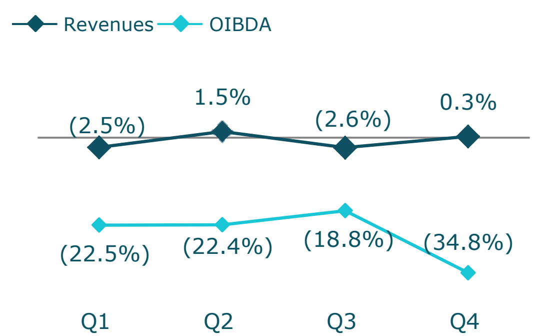
- **Strengthened commercial positioning** along 2013 fuelling revenue acceleration
- **Strong commercial efforts in Q4 dragging organic OIBDA margin y-o-y** (-2.1 p.p.)
  - 4G services available from Dec-13

Mexico
2.8%

Net Adds & Voice Traffic



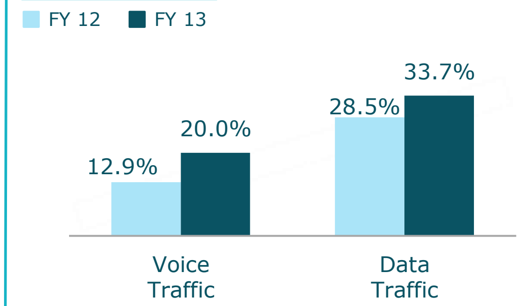
2013 Revenues & OIBDA (organic y-o-y)



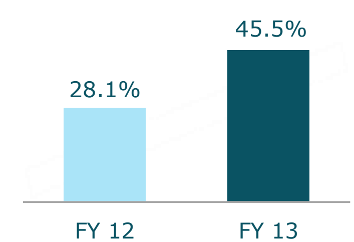
- **Record high mobile net adds** in Q4
- **New agreements signed** (Nextel & Virgin) to reinforce our wholesale strategy

Venezuela
6.2%

Traffic (y-o-y)



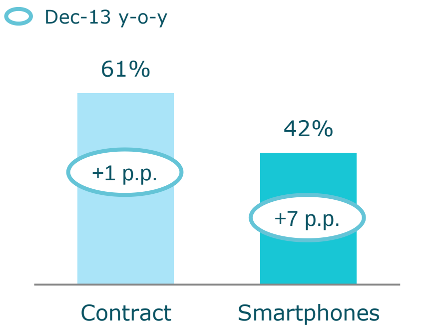
2013 Revenues (organic y-o-y)



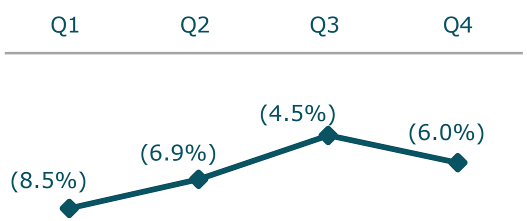
- **Volume driven growth** in 2013: voice traffic (+20% y-o-y); data traffic (+34% y-o-y); Pay TV accesses (+79% y-o-y)
- **CapEx accelerating** (+113.0% organic y-o-y) to provide best-in class services

T. Europe: Focused portfolio with enhanced margins

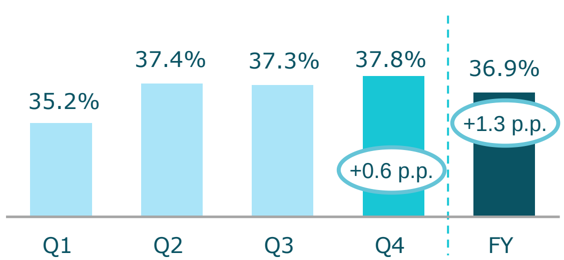
Growing quality base (penetration)



2013 Revenue (y-o-y organic ex-regulation)



2013 OIBDA margin (y-o-y organic)



Differential customer propositions

- **Sound commercial trading in very dynamic markets**
  - Leadership in Spain: “Fusión” (quality premium on FTTH)
  - Ongoing momentum in contract mobile: “O2 Refresh” in the UK
  - Innovative multibrand and data centric approach in Germany
- **Building the foundations for data growth monetization**
  - Further progress on LTE across Europe
  - Focus on fibre deployment in Spain

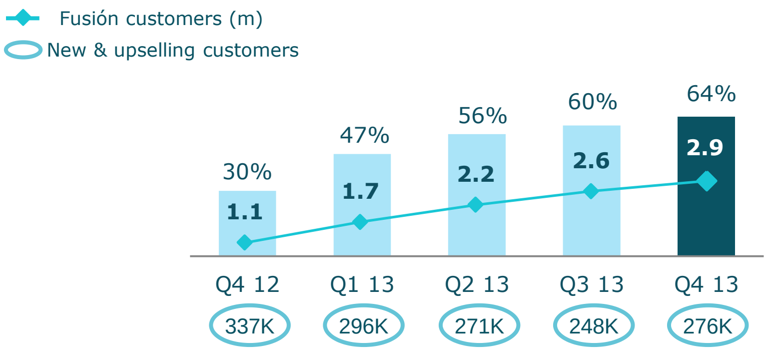
Transformation and profitability

- **Sustainable customer base fuelling top line improvement**
- **Consistent margin expansion on cost optimisation**
  - Deep simplification of the operating model
  - Reduction in commercial costs (-16.7% y-o-y organic in FY)
- **Continuous investment in key priorities** (LTE, fiber)

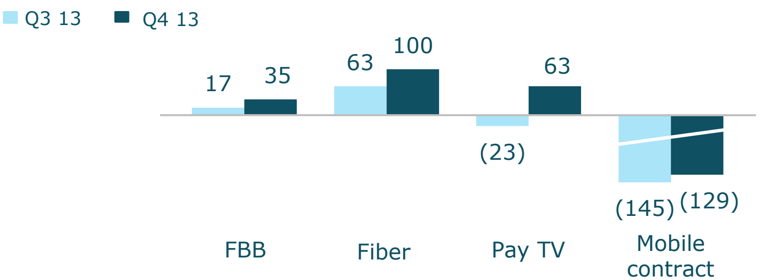
Improving T. Europe profile after streamlined portfolio

Spain: Remarkable trading, strong push on fiber

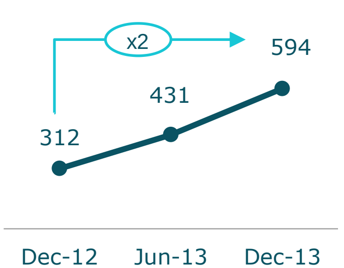
Movistar Fusión % New & upselling customers /gross adds



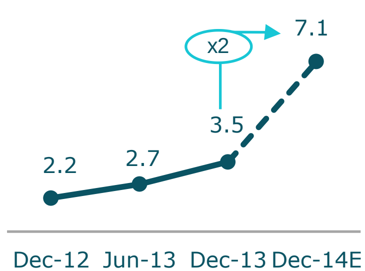
Net adds ('000)



FTTH connected ('000)



FTTH passed (m)



(1) Including >1.1m "Fusión" mobile add-ons

Improved trends in Q4: Turnaround to higher value

- **Record-high fiber and Pay TV** net adds in Q4
- **Christmas campaign** leveraged on cross-selling
  - Full Pay TV for new contract mobile lines within "Fusión"
- **High penetration of "Movistar Fusión"** in consumer segment:
  - 52% of FBB in Dec-13 (+29 p.p. y-o-y)
  - 45%[(1)] of contract mobile in Dec-13 (+29 p.p. y-o-y)
- **Mobile contract** net loss reduced in Q4
- **Differential value proposition** after renewal offer in Sep-13
  - LTE, fiber, Mini TV

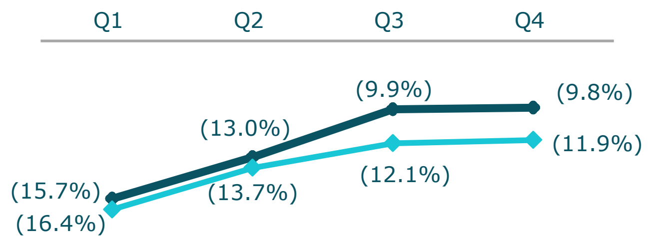
Acceleration of quality differentiation

- **FTTH coverage increased** to 20% of total homes by Dec-13
  - Deployment accelerated in Q4 (580 k additional HHPP)
- **Higher value fiber customers** (3x gross value vs. ADSL)
  - 1.5x ARPU
  - 0.5x churn
- **LTE** reached **~40% of pop.** by Dec-13

Spain: Consolidating trends across the board

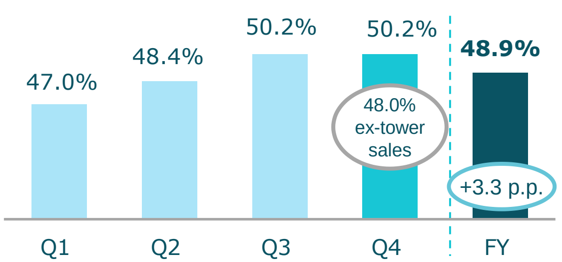
2013 Revenue (organic y-o-y)

Revenue ex MTR   Revenue



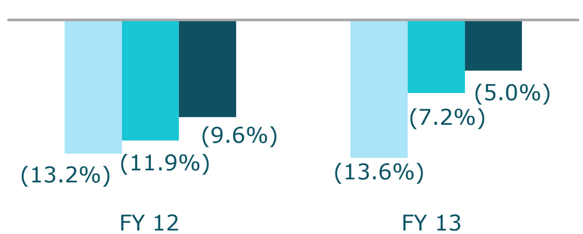
2013 OIBDA Margin

organic y-o-y



Main Financials (organic y-o-y)

Revenues   OIBDA   OpCF



Consistent revenue stabilisation

- **Fixed revenue trend improvement** on better commercial trend of "Fusión"
- **Strong regulatory impact** (MTR -60% on 1st July)
- **Successful Christmas campaign** not yet reflected in revenues

Outstanding profitability on full benefits from transformation

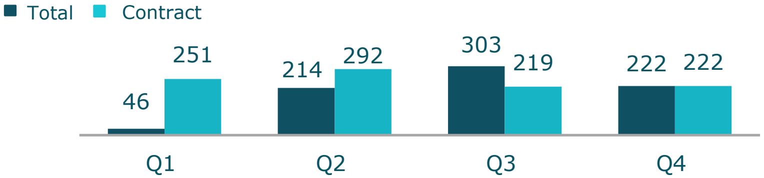
- **Impressive savings** (OpEx y-o-y: -17.6% in FY; -11.5% in Q4)
  - Strong reduction in commercial costs (-31.3% y-o-y in FY)
  - Restructuring Program and temporary suspension of pension plan
  - Simplification and higher quality
- **Efficiency initiatives on progress**
  - Insourcing
  - Distribution channel optimisation (PoS reduction, foster on-line)
  - Call center simplification

High operating cash flow generation (FY: €4.8 bn)

- **CapEx y-o-y reduction in 2013** (-13.6% organic) on optimization and focused allocation towards fiber and LTE
  - CapEx in fiber +44% y-o-y in 2013
- **Benchmark OpCF margin** at 37% in FY (+3 p.p. y-o-y)

UK: Solid commercial momentum

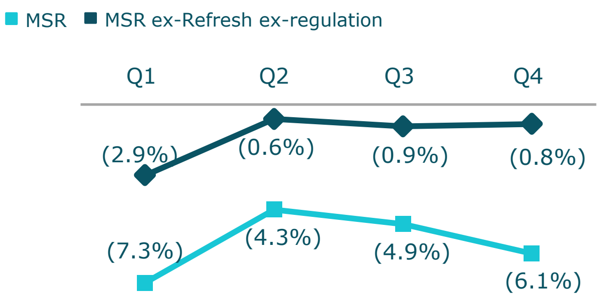
2013 Mobile net adds ('000)



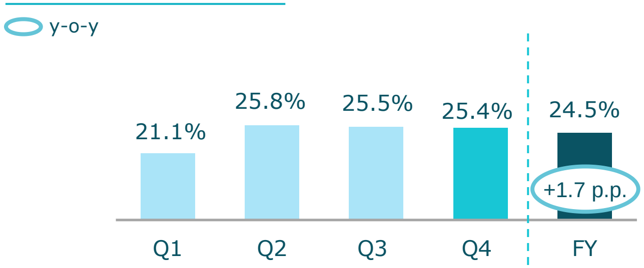
Market leading contract churn: 1% in 2013

54% contract mix (+2 p.p. y-o-y)

2013 Mobile Service Revenues (y-o-y)



2013 OIBDA margin



Financial y-o-y change are in local currency

Successful commercial proposition

- **"O2 Refresh" surpasses the 1 million mark**
  - Only available in direct channels; 56% of contract activity (+3 p.p. q-o-q)
- **LTE progressively adopted by customers**
  - 38% outdoor coverage; target >60% at Dec-14
  - Monetisation based on increasing data consumption
  - LTE customers: 2x higher data consumption vs. 3G

Improved revenue trends

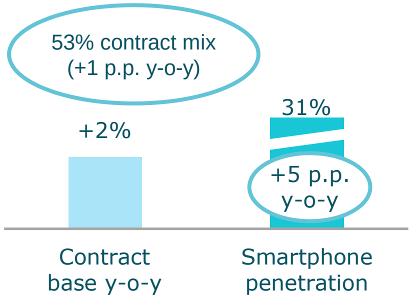
- **Stabilisation of total revenues** y-o-y (+0.3% in Q4; -0.5% in FY)
  - "Refresh" contributed with 8.5 p.p. to Q4 and 5.8 p.p. in FY
  - Fixed business disposal deducted 1.7 p.p. in Q4 and 1.2 p.p. in FY
- **MSR growth negatively impacted by "Refresh" model**

Managing growth and profitability

- **OIBDA performance** y-o-y (+11.8% in Q4; +7.0% in FY) reflects
  - Efficiencies on outsourcing and lower commercial spend (OpEx y-o-y: -3.2% in Q4; -1.2% in FY)
  - Benefits of "Refresh" proposition partially offset by direct trading
- **OpCF** ex-spectrum up 19.0% y-o-y in FY

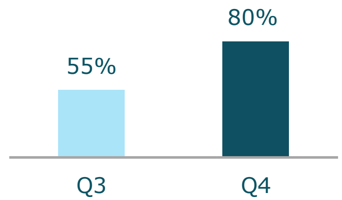
Germany: Data monetisation in a competitive environment

Contract base highlights

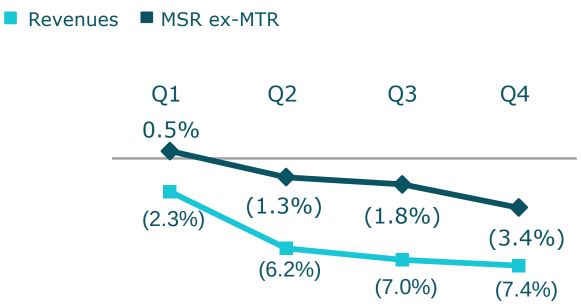


LTE enabled devices sold

% over total handset sales

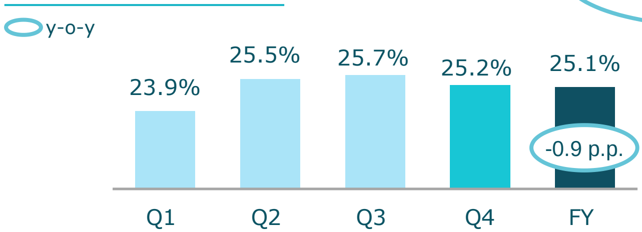


2013 Revenues (y-o-y)



2013 OIBDA Margin

Q4 & FY excludes €76m of assets sales



Solid progress in LTE

- **LTE population coverage at >40%**
- **4G customers**: **3x usage** vs non-LTE smartphone
- Doubling CapEx in LTE in 2013
- ~100% clients in consumer contract opting for a data-centric tariff
- **3G network densification**: Enhancement of HSPA+ with dual cell

Transforming the business towards data

- **Top line pressure on:**
  - Continuous tariff renewals
  - Further decline of SMS revenue in Q4
- **Sustained y-o-y growth of non-SMS revenues** (Q4: +18.6%; FY: +21.7%)
- **Non-SMS/data revenues at 70%** in Q4 (+10 p.p. y-o-y)

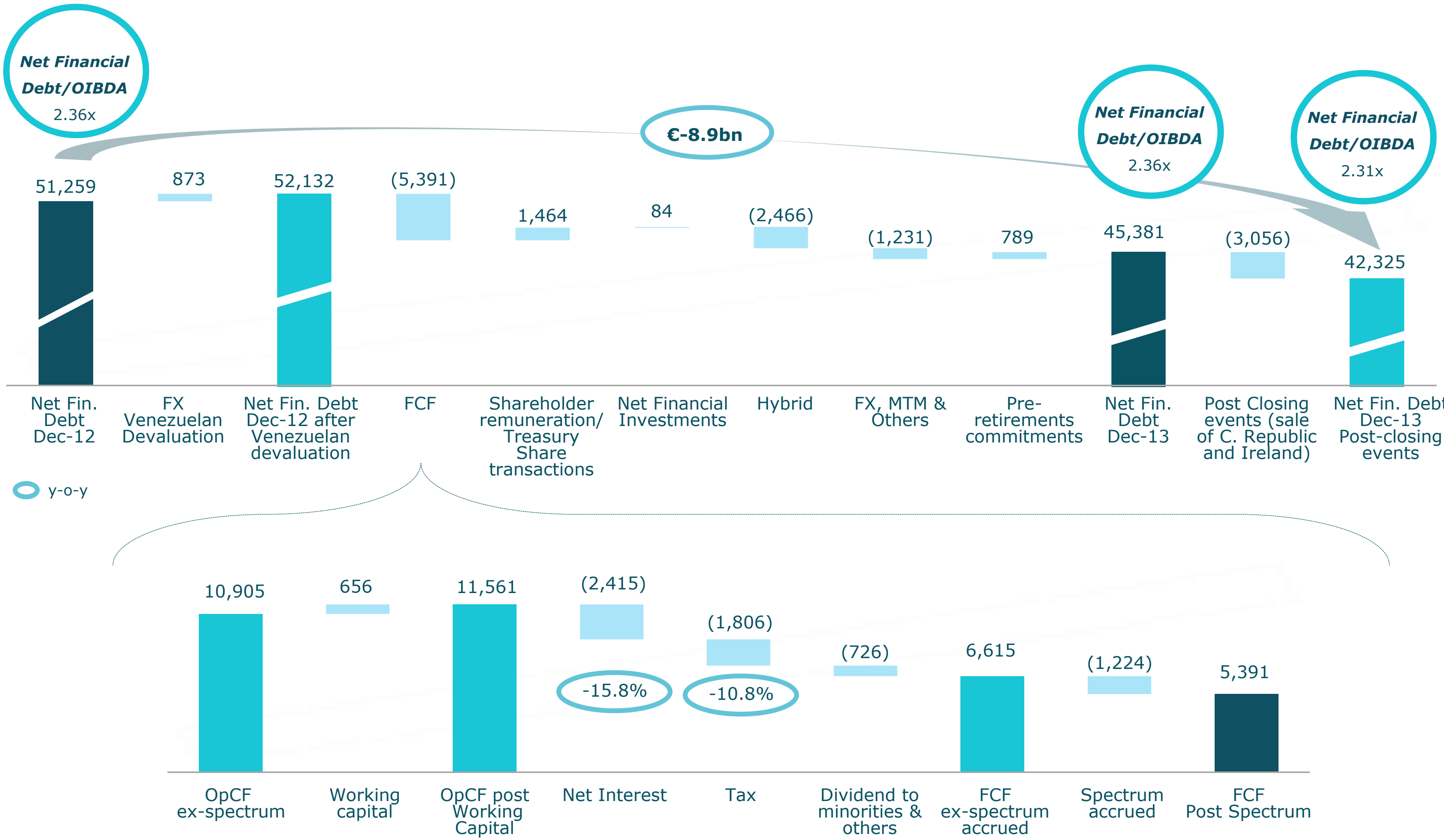
Sustained OIBDA margin q-o-q

- **Reported OIBDA** (+6.5%) **and margin** (31.4%;+4.1 p.p.) **in Q4 impacted by asset sales**
- OIBDA -8.8% y-o-y in FY excluding capital gains (-14.3% in Q4):
  - Higher commercial costs mainly in retention
  - Specific promotions on devices & higher mix of LTE sales

Substantial net debt reduction, well below our 2013 target

Net Financial Debt

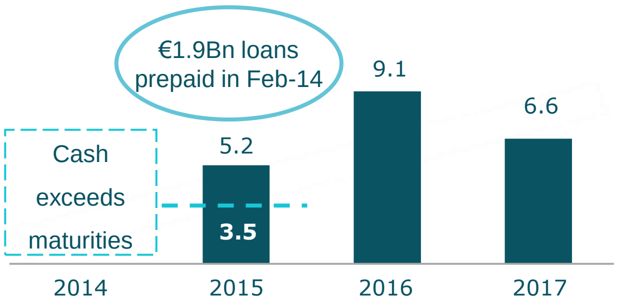
€ in millions



Outstanding liquidity while reducing interest costs

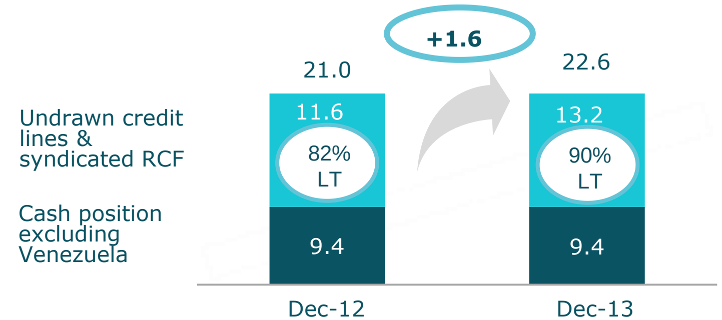
Increased average debt life above 7 years [1] (Dec-13)

Net debt maturities (€ in billions)



Total liquidity cushion at €22.6bn

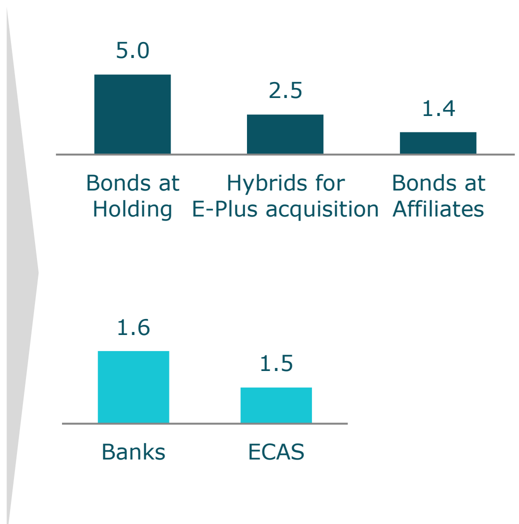
€ in billions



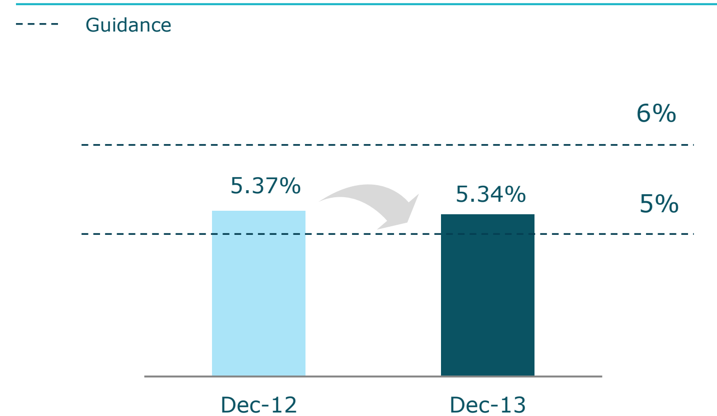
€12bn well diversified long term financing in 2013

€ in billions

- ✓ Size of long term financing in 2013 & YTD exceeds gross maturities in 2014 & 2015



Effective interest cost at guidance bottom (12 month rolling)



(1) Includes Hybrids maturing at Non-call dates (year 5, 7 and 8)

2014 outlook

Guidance 2013	2013	Guidance 2014 (organic and excluding Venezuela)
Revenue growth (>0%)	0.7%	**Positive revenue growth**
Lower OIBDA margin decline than in 2012 (-1.4 p.p.)	(-0.2 p.p.)	**OIBDA margin towards stabilisation with erosion of around 1 p.p. y-o-y** to allow for commercial flexibility if needed
Similar CapEx/Sales as in 2012 (14.1%)	14.5%	**CapEx/Sales: 15.5%-16%**

2014 Dividend: €0.75/share

		Guidance 2014 (Reported)
Net debt < €47Bn	€45.4Bn	**Lower than €43Bn**

- **CapEx increase oriented to stimulate growth**
  - Network differentiation, further revenue opportunities
  - Improve market positioning & ROCE in core markets
  - CapEx to encourage FCF generation
- **Mid-term commitment 2.35x ND/OIBDA reiterated**

- **2013 Dividend: €0.75/share**
  - €0.35: cash payment Nov-13
  - **€0.40: cash payment in Q2 14**
- **2014 Dividend: €0.75/share**
  - To be paid in Q4 14 (€0.35 scrip) and Q2 15 (€0.40 cash)
  - Q4 14 scrip dividend allowing to re-invest dividend into business while CapEx increase crystalises in superior FCF generation

CapEx intensification compatible with attractive shareholder remuneration & regaining further financial flexibility

Closing remarks

- **One step further in our evolution to the Digital era**
  - Faster, simpler, closer, efficient, sustainable: capabilities needed to maximise returns from the Digital opportunity
  - Technology strength and differential infrastructure are non-replicable competitive advantages
- **Significant progress reached in 2013**
  - Recovering revenue organic growth, stable organic OIBDA and strong FCF generation
  - Regaining further financial flexibility, increasing the focus in core markets, improving Group's growth potential through in-market consolidation
- **Accelerating growth in 2014**
  - Building stronger networks to improve our market positioning in key markets coupled with increasing efficiency levels
  - Financial discipline and superior shareholder remuneration as core principles; further portfolio optimisation remains as an opportunity

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